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SUBJECT: PRIVATIZATION PROCEEDS FOR THE CAMPAIGN
WAR CHEST?

11. (SBU) SUMMARY: In December 2008 the Government of Moldova (GOM) decided to amend the 2008 state budget by increasing revenues, expenditures and the deficit. This followed an announcement in November that revenues from privatization had exceeded expectations and that the GOM would sell additional assets worth MDL 4 billion (USD 400 million) from a total of 89 companies and direct the additional funds to economic projects and development. The opposition questioned whether the additional funding would serve the targeted purposes or supplement the ruling Party of Communists' (PCRM) campaign war chest for the 2009 spring elections. The lack of transparency in privatizations, the sudden announcement of tenders with short deadlines for bidding and the apparent failure of privatizations to achieve market-value bids have led to accusations by opposition parties of corruption.
END SUMMARY.

2008 BUDGET AMENDMENT IN DECEMBER

12. (U) On December 8, 2008, at an extraordinary meeting, the GOM decided to recommend amending the 2008 state budget due to surplus revenue from privatization during the year and plans for additional sales. The GOM proposed increasing budget revenues by Moldovan lei (MDL) 570.2 million (USD 55 million), expenditures by MDL 965.3 million (USD 93 million), and the deficit by MDL 495 million (USD 48 million). The GOM submitted this proposal to the Parliament for consideration on December 9 and Parliament approved the amendment on December 19, 2008. The supplementary funding primarily targets economic development. It allocates MDL 369.5 million to the transportation sector (including Giurgiulesti port on the Danube River and the construction of a railroad line from the port to the town of Cahul), MDL 98.6 million to agriculture, and MDL 92.6 million to the energy sector. The amendment also increases funding for education, health, culture, sport and youth; for public order and national security; for national defense; for servicing the state debt; and for support of local budgets.

PRIVATIZATION AND OPPOSITION PROTEST

13. (SBU) In late November, the GOM announced the sale of 89 companies with assets worth MDL 4 billion (USD 400 million), including 14 companies fully owned by the state and 44 companies in which the state had a majority share. On December 17, the opposition party Our Moldova Alliance (AMN) protested in downtown Chisinau outside the

government's headquarters against the "groundless" privatization of state property. About 100 protesters carried banners saying "Stop the Privatization of State-Owned Assets," "No Corruption," "The Communists are Plundering the State," and "The PCRM is Like the Bird Flu." At the protest, AMN members claimed that the money received from the sale of state assets would be used by the PCRM for its electoral campaign in the spring. They noted that the GOM had elected to privatize additional assets during the world economic crisis, although the GOM would likely have earned more by waiting for better economic times.

14. (U) At a press conference on December 16, 2008, Prime Minister Zinaida Greceanii had stated that the GOM was not going to suspend the privatization program and not a single object would be privatized at an under-rated price. Regarding two major assets of the GOM, she noted that "we are not going to put up Banca de Economii (savings bank) or Moldtelecom for privatization - until good conditions are ripe for this and until attractive offers come to us."

PRIVATIZATION DEALS OR STEALS?

15. (SBU) The GOM recommended a seven-hectare site in the city center of Chisinau on Vasile Lupu Street to the U.S. Embassy for a new embassy compound (NEC). Emboffs and GOM officials have been discussing the possibility of the USG's acquiring the site for months. On December 30,

2008, Embassy staff discovered that the Public Property Agency had posted the site on its website for privatization on December 29, 2008. The announcement requested submissions by January 30, 2009 and contained a requirement that the minimum accepted price was MDL 88.6 million (USD 8.8 million) and a bank guarantee had to be submitted when bidding. The timing of the announcement was particularly suspicious, since the GOM shut down for holidays from January 1 to January 11, 2009. Many businesses followed suit and closed for the first eleven days of January 2009. Interested bidders could only seriously begin preparation of the documentation required, including securing financing, for a bid on January 12, 2009, unless they had prior knowledge of the tender and began preparing before the announcement.

16. (SBU) The GOM added the Codru Hotel complex in downtown Chisinau to the list of assets subject to privatization on November 12. The GOM announced the sale of the Codru Hotel to Daranian Holding company, registered in Cyprus, for MDL 50.3 (USD 4,8 million) on December 23, 2008. According to the GOM, three bidders competed for the tender. In an interview published on January 11, 2009, Mihai Ghimpu, the president of the Liberal Party, accused the government of selling property worth billions of lei at ridiculously low prices to obscure firms that could be controlled by the Party of Communists. He noted that the most recent example was the sale of the Codru Hotel at a price ten times below its fair market value. He lamented that the government was stealing property in a country where people got the lowest salaries and pensions in Europe.

17. (SBU) On December 26, 2008, an opposition party, Moldova Noastra Alliance (AMN) accused the GOM of corruption in the privatization of state assets in a statement read in Parliament. The AMN statement said, "[t]he sales of assets of the last six months tell of the fact that we're witnessing a new 'prihvatization' (a pun implying theft which

was often used by the Communists in the late 90s) on a big scale, and well managed by the mafia clan ruling the country."

COMMENT

18. (SBU) The recent, large privatization of the Codru Hotel and the lack of transparency in the sale of governmental assets continue to fuel speculation of corrupt privatizations and of funds ending up in the PCRM's campaign war chest for upcoming elections. The GOM claimed that current budget revenues were above projection because of additional proceeds from privatization, taxes and fees. The revenue in 2008 from privatizing public property totaled MDL 934 million (USD 90 million) and exceeded planned receipts for 2008 by a factor of five. The budget for 2009 foresees income of only MDL 350 million from privatization. The significant increase in privatization revenues in 2008 and the fact that the report on the 2008 state budget will not be publically available until summer 2009 support accusations of corruption against the GOM in its privatization program.

19. (SBU) Local observers had expected the PCRM to do everything possible to ensure for itself a sizable victory in the upcoming national parliamentary elections. That expectation seems to have been realized: the ruling party is harassing opposition parties to decrease their chances of winning; media, especially broadcast media, carry little information about opposition politicians; and the proceeds from privatization may be enriching the PCRM.

CHAUDHRY